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for

The Consolidated Mining and Smelting Company of Canada Limited

60th Annual Report

COMINCO

1965

Trail

1906



1966



In 1906 a small smelter at Trail, B.C. owned by the Canadian Pacific Railway Company became the nucleus for the consolidation of mining and smelting interests as The Consolidated Mining and Smelting Company of Canada Limited. Sixty years later Trail is a pleasant modern community and the once small smelter is a metallurgical and chemical plant complex of world importance.

*The Consolidated Mining and Smelting Company
of Canada Limited*

Annual Report 1965

The Consolidated Mining and Smelting Company of Canada Limited

Head Office: 630 Dorchester Blvd. W., Montreal, Canada

Directors

L. J. Belnap
A. L. Bishop
N. R. Crump*
† R. A. Emerson*
Gordon Farrell

R. D. Harkness
G. A. Hart
R. Hendricks*
W. S. Kirkpatrick*
R. S. McLaughlin

D. R. McMaster
R. D. Perry*
R. E. Stavert*
H. G. Welsford

*Member of Executive Committee.

†Deceased 13th March, 1966

Officers

W. S. Kirkpatrick
Chairman and President

N. R. Crump
Vice-President

R. Hendricks
Executive Vice-President

R. D. Perry
Vice-President, Finance

D. D. Morris
Vice-President, Operations

A. O. Wolff
*Vice-President,
Research and Corporate Development*

H. T. Fargy
Vice-President, Sales

J. H. Salter
Vice-President, Western Region

S. M. Rothman
Manager, Western Operations

F. L. Hallam
Secretary-Treasurer

L. O. Reid
Assistant Secretary

K. E. Clare
Assistant Treasurer

Transfer Agents

The Royal Trust Company, Montreal
The Royal Trust Company, Vancouver
Canada Permanent Trust Company, Toronto
Bank of Montreal Trust Company, New York

Registrars

Montreal Trust Company, Montreal
Montreal Trust Company, Vancouver
Crown Trust Company, Toronto
Chemical Bank New York Trust Company, New York

Comparative Highlights

	1965	1964	1963	1962	1961
Sales of all products	\$211,173,000	\$170,029,000	\$140,307,000	\$131,101,000	\$124,403,000
Net earnings	53,037,000	39,556,000	29,823,000	23,227,000	21,435,000
Net earnings per share	\$3.18	\$2.37	\$1.82	\$1.42	\$1.31
Dividends declared	30,036,000	26,454,000	21,294,000	18,018,000	16,380,000
Dividends per share	\$1.80	\$1.60	\$1.30	\$1.10	\$1.00
Income, mining and property taxes	26,672,000	27,437,000	19,709,000	16,995,000	16,589,000
Depreciation	13,586,000	11,585,000	10,927,000	10,433,000	10,307,000
Depletion	1,112,000	156,000	—	—	—
Capital expenditures	64,410,000	38,048,000	22,732,000	13,104,000	10,877,000
Working capital	79,432,000	97,324,000	101,115,000	103,107,000	100,118,000
Cash and marketable securities	35,065,000	64,800,000	72,351,000	71,887,000	63,320,000
Inventories of raw materials and products	40,073,000	32,484,000	26,665,000	27,763,000	30,427,000
Number of employees at year-end of Cominco and its subsidiaries	10,131	9,838	8,474	8,073	8,103
Number of shareholders at year-end	39,066	35,712	35,218	35,805	34,234

Output of Principal Products

Year	Lead Short Tons	Zinc Short Tons	Ores and concentrates sold Short Tons	Silver Ozs.	Cadmium Short Tons	Fertilizer Short Tons	Iron and Steel Short Tons
1894 to 1955	5,706,288	4,163,146		312,976,199	8,988	8,038,590	
1956	147,865	192,317	462	11,583,530	884	692,993	
1957	142,935	188,555	3,332	10,877,532	901	659,050	
1958	132,987	192,282	676	12,875,160	643	692,194	
1959	135,296	192,762	11,563	9,367,029	838	664,228	
1960	158,510	193,875	515	8,690,244	918	713,168	
1961	171,833	193,138	495	8,816,141	963	696,286	32,049
1962	152,217	199,393	31,919	6,667,813	1,059	714,335	31,441
1963	155,001	194,159	35,849	6,847,606	1,019	708,548	37,678
1964	151,372	199,011	41,296	7,347,590	945	739,080	83,992
1965	186,484	213,082	109,502	6,415,230	359	754,550	180,889
1894 to date	7,240,788	6,121,720	235,609	402,464,074	17,517	15,073,022	366,049



Drill rigs sinking freeze holes for the shafts at Cominco Potash, 20 miles southwest of Saskatoon, Saskatchewan. These holes will carry refrigerant to freeze the water-bearing Blairmore formation prior to shaft sinking.

60th Annual Report of the Directors

Montreal, P.Q., March 10, 1966

To the Shareholders:

With the continued high level of business activity and international trade the demand for Company products has been sustained in most market areas. Earnings for 1965 were 34% higher than 1964 and sales were by far the highest on record. In January, 1966 the Company completed sixty years of corporate life, an event which will be appropriately marked later in the year.

The consolidated financial statements and Auditors' Report and other information covering the affairs of the Company for the year ended December 31, 1965 follow:

Financial

The 1965 financial statements of the Company are presented in consolidation with those of its wholly-owned subsidiaries and of Pine Point Mines Limited. Pine Point's accounts were not included in the consolidated statements for 1964 and accordingly the 1964 comparative figures have been revised to include them.

Consolidated net earnings for the year were \$53,037,000 compared with \$39,556,000 in 1964. Dividends of \$1.80 per share amounting to \$30,036,000 were declared during the year compared with \$1.60 per share in 1964.

The most important factors contributing to the increase in earnings were: increases in the volumes of lead and zinc sold, increases in the prices received for these metals, particularly lead, and a relative reduction in income taxes because of the tax-exempt period of Pine Point Mines Limited which commenced on March 1. The 1965 earnings also reflect a non-recurring dividend of \$2,500,000 from the West Kootenay Power and Light Company, Limited. Earnings from chemical and fertilizer operations decreased compared with 1964, mainly because of abnormal costs incurred during the start-up of new plants.

Sales of products, net of freight, handling and other deductions, amounted to \$211,173,000 compared with \$170,029,000 in 1964. During 1965 total sales revenues were derived as follows: lead and zinc (including ores and concentrates) 54%, all other metallurgical products 21%, fertilizers 23%, industrial chemicals and others 2%.

Consolidated net capital expenditures and investments amounted to \$64,410,000. The larger items included: construction of additional fertilizer production facilities in Canada and the United States \$23,516,000, construction of plant and preparation for production at Pine Point \$7,631,000, development of the Saskatchewan potash property \$6,356,000, and additional investment in Pacific Coast Terminals Co. Ltd. \$5,325,000.

At December 31st working capital amounted to \$79,432,000, a decrease of \$17,892,000 during the year, accounted for as follows:

Sources:

Net Earnings	\$53,037,000
Add: Charges deducted in determining net earnings, not requiring an outlay of funds	
Depreciation and depletion	14,698,000
Minority interest in net earnings of Pine Point Mines Limited	4,045,000
Income tax provision for future years	569,000
	<hr/>
	\$72,349,000
Long-term borrowings (net)	5,282,000
	<hr/>
	\$77,631,000

Applications:

Dividends declared	\$30,036,000
Capital expenditures and investments	64,410,000
Increase in sundry non-current items	1,077,000
	<hr/>
	\$95,523,000
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Decrease in working capital	\$17,892,000

Metals

Refined lead production at 186,484 tons was at a high level and compared with 151,372 tons in 1964. Zinc production established a new record of 213,082 tons and compares with the 1964 production of 199,011 tons. These production levels were made possible by the availability of high grade direct shipping ore from Pine Point and an extension to the electrolytic zinc plant which will bring the rated capacity to 232,000 tons. Production at this nominal rate has already been achieved during December. The lead and zinc production was derived approximately 48% from the Sullivan mine, 12% from other company mines, 29% from ores and concentrates purchased from Pine Point Mines Limited and 11% from other purchased ores and concentrates.

Ore production from the Sullivan mine was 2,301,000 tons compared with 2,711,000 tons in 1964. The long-term underground mining plan designed to provide for optimum extraction of the Sullivan ore-body was modified temporarily in 1962 in order to obtain additional zinc production until Pine Point concentrates became available. During 1965 the normal program was resumed and the mining of low grade ore from the open pit was discontinued in order to permit treatment of high grade Pine Point ore in the Sullivan concentrator. Production from the Bluebell lead-zinc mine was 256,000 tons compared with 258,000 tons in 1964 and from the H. B. zinc-lead mine was 416,000 tons compared with 478,000 tons. Ore reserves at company mines tributary to the Trail smelter (Sullivan, Bluebell and H. B.) at September 30, 1965 were 73,900,000 tons containing 8,100,000 tons lead and zinc compared with 75,600,000 tons containing 8,300,000 tons lead and zinc at September 30, 1964.

Following successful test shipments of high grade lead-zinc ore from the property of Pine Point Mines Limited late in 1964, shipments to Kimberley and Trail were continued throughout 1965 and 262,000 tons were treated. Most of this ore was milled at the Sullivan concentrator, the remainder went directly to Trail. Shipments of lead and zinc concentrates from Pine Point to Trail commenced in December, 1965.

As a result of receipts from Pine Point the purchase of concentrates from foreign sources was significantly reduced despite the high level of metal production.

For the third year in succession, free world consumption of lead and zinc in 1965 reached new records estimated at about 3,000,000 tons and 3,700,000 tons respectively. Inventories remained at minimal levels and releases from United States stock-piles of 36,900 tons of lead and 219,200 tons of zinc were necessary to help meet the high level of demand in the United States.

As given in the tables below prices of lead in North America and of zinc in all major areas remained unchanged during 1965 but lead prices quoted on the London Metal Exchange showed wide fluctuations.

Lead

	New York ¢ (US) per lb.	Canada ¢ (Can) per lb.	London Metal Exchange ¢ (Can) per lb.
December 31, 1964	16.0	15.5	16.5
High for 1965	16.0	15.5	21.0
December 31, 1965	16.0	15.5	15.0

Zinc

	East St. Louis ¢ (US) per lb.	Canada ¢ (Can) per lb.	London Producers' Basis ¢ (Can) per lb.
December 31, 1964	14.5	14.5	14.8
High for 1965	14.5	14.5	14.8
December 31, 1965	14.5	14.5	14.8

Demand for the Company's lead and zinc was excellent throughout the year and inventories at year-end were low. Some changes in market distribution of both metals were required during the year because the Japanese market was seriously curtailed by domestic conditions in that country, and the Indian situation deteriorated on account of foreign exchange problems. The United Kingdom and Continental markets showed some softening towards the latter part of 1965.

The Company's lead and zinc were sold throughout the world, approximately 29% in Canada, 20% in the

United States, 41% in the United Kingdom and Continental Europe, and 10% in other countries, compared with 32%, 21%, 35% and 12% respectively in 1964.

Silver production was 6,415,000 ounces, 49% from company mines. The price held at 129.3¢ U.S. per ounce set by the United States Treasury. World usage continued above supply causing the United States to reduce the use of silver in coinage.

Production of gold from Company sources was 56,000 ounces, nearly all from the Con mine at Yellowknife. In addition to Con ore the Con mill treated ore from the Rycon and Vol properties. These properties are owned by subsidiary companies of Cominco.

Pig iron production was 102,000 tons compared with 48,000 tons in 1964, reflecting the effect of the second furnace which was started in October, 1964.

Sales have been maintained in line with increasing production and, although returns on this business still remain low, they showed some improvement compared with the previous year.

Cadmium production at 359 tons was down sharply from 945 tons in 1964. World consumption was down seriously and prices declined in all market areas during the year. Production of bismuth, tin and antimonial lead were at normal levels. Bismuth markets continue to strengthen and prices increased during the year. Indium production and sales showed a substantial increase as did sales of high purity metal fabrications and electronic materials. A small zinc dust plant was completed and brought into production. Market acceptance of the product has been satisfactory.

The Wedge copper mine near Newcastle, New Brunswick produced 272,000 tons of ore compared

Concentrator buildings at Pine Point.



with 282,000 tons in 1964. The ore was concentrated in facilities rented from Heath Steele Mines Limited, producing 34,000 tons of concentrates for shipment to Japan. The Benson Lake concentrator on Vancouver Island, which treats ore from Coast Copper Company, shipped to Japan 15,000 tons copper concentrates and 93,000 tons magnetite concentrates.

Chemicals and Fertilizers

Total fertilizer production in 1965 was 755,000 tons compared with 739,000 tons in 1964. The 1965 production was below forecast because of a combination of delays in start-up, mechanical failures after start-up, and necessary changes in new facilities. As a result, while total sales of fertilizer materials increased over 1964 experience, there was some restriction caused by production limitations at peak demand periods.

During the year the new sulphuric acid plant, the new natural gas ammonia plant and the Zinc M-N-S plant at Trail, the third Kimberley phosphoric acid unit and associated ammonium phosphate plant at Regina, and the new urea plant at Calgary were all brought into production. In addition the new nitrate granulation plant at Trail was in process of start-up at year-end. Production from the new sulphuric acid plant at Trail is now substantially above rated capacity and the performance of the Zinc M-N-S plant is satisfactory. The plant, completed at Calgary in 1964 to produce granular ammonium nitrate, is turning out a very satisfactory product. Production of ammonium phosphate at Trail was restricted because of delays in opening the Douglas Creek phosphate rock mine in Montana and technical difficulties in treatment of the product.

Fertilizer sales on the Canadian prairies had to face new competition from both corporate and co-operative organizations within the area, necessitating new marketing policies and causing a minor decrease in tonnage sold as compared to 1964. The Regina plant came into operation in May and by its location close to consumers has improved the Company's position in this important market area. Further, the Canadian dealer organization is being strengthened and con-

struction has begun of a series of bulk distribution plants on the Prairies.

Demand for fertilizer in Cominco's United States market areas continued very strong resulting in a marked increase in sales of solid and liquid fertilizers from Cominco's plants. Substantial quantities of fertilizer materials were also purchased in the United States for resale purposes in order to maintain market position in anticipation of future sales expansion from expanded production in Canada, and from the plant being built in Nebraska by Cominco American, Inc. This plant is designed to use purchased ammonia in the production of granular ammonium nitrate and a range of liquid fertilizers.

Off-shore sales approximated the same total tonnage as in 1964, being restricted to exports of ammonium sulphate to India under the Colombo Plan and a few other minor shipments. Total sales of chemicals for industrial purposes were at about the same level as in the previous year. However, sales of sulphuric acid in Western Canada showed a significant increase, reflecting the Company's policy of supplying this growing market from the acid plants at its metallurgical operations.

Expansions and Developments

The importance attached to both research and exploration in the Company's growth is again reflected in increasing expenditures on these activities which rose to \$6,600,000 in 1965 compared with \$6,000,000 in 1964. Expansion and re-organization of Research and Corporate Development continues. Additions are being made to Exploration staffs in line with plans to strengthen and expand this function.

Construction of the concentration plant and auxiliary service buildings at the zinc/lead property of Pine Point Mines Limited was completed late in the year and regular shipments of lead and zinc concentrates started in December. Shipments of high grade ore which had commenced late in 1964 were continued throughout 1965, the total for the year being 364,000 tons of which 314,000 tons was for treatment at Cominco plants. Stripping was com-



Cominco's fertilizer plant at Regina, opened officially by Premier W. R. Thatcher of Saskatchewan in June, 1965.

pleted on the second and third orebodies. A summer program of geophysical work and diamond drilling was carried out to locate new orebodies.

Construction of a plant at Kimberley for conversion of pig iron to steel commenced about mid-year and is proceeding on schedule. This will have an initial capacity of 80,000 tons per annum and will supply the subsidiary, Western Canada Steel, with raw material required to develop its markets to the maximum. Completion of the project is planned for the first half of 1966.

In line with the increasing power requirements of the British Columbia operations, installation of the fourth 120,000 h.p. generator at the Company's Waneta hydro-electric plant was authorized in 1964. Actual installation commenced in mid-1965 and is progressing favourably with completion expected in the third quarter of 1966.

At the Magmont lead property in Missouri, jointly owned by Cominco American Incorporated and Magnet Cove Barium Corporation, satisfactory progress has been made on sinking the shaft and designing a mill to produce 70,000 tons of concentrates per annum. The property will be operated by Cominco American Incorporated. Production is scheduled for early 1968.

Construction continues on the Cominco Binani Zinc Limited smelter at Kerala, South India, and

while general economic conditions in India have caused some delays, steady progress has been maintained and production is still anticipated in 1966. During 1965, in order to ensure continuing participation in the Japanese metal market, Cominco joined with Mitsubishi Metal Mining Company Ltd. to construct a 40,000 ton per year lead smelter. This is under construction at Naoshima on Japan's Inland Sea and will be operated by a new company, Mitsubishi Cominco Smelting Co. Ltd. in which Cominco has a 45% interest. Satisfactory progress has been made on the project which is scheduled for completion by mid-1966.

In November the Company acquired 50% ownership of The Canada Metal Company Limited, previously owned by National Lead Company, New York, who retain the remaining 50%. Canada Metal is the largest lead fabricating firm in Canada so that this acquisition constitutes a major move toward vertical integration in lead products comparable to similar action already taken in zinc.

At the Saskatchewan potash project work commenced on sinking the two production shafts with preliminary ground freezing about to begin at the year-end. Production is planned to commence in 1969 and action has already been taken to develop specific markets for the planned 1,200,000 tons initial annual output.

Expansion of exploration continued throughout Canada with individual projects located from Vancouver Island to Newfoundland and north into the Arctic. Although the major effort continued to be in Canada exploration elsewhere was also accelerated through subsidiaries and participation with other companies. Work in the United States was carried out through Montana Phosphate Products Company (now Cominco American Incorporated), and in Western Europe through the reactivated subsidiary, McDame Creek Gold Mines Ltd. Two new wholly-owned subsidiaries, Cominco Exploration (U.K.) Ltd. and Cominco Exploration Pty. Ltd. were formed to carry on exploration in England and Australia.

Cominco holds a minor interest in Western Mines Ltd. whose base metal property on Vancouver Island is being prepared for production in 1966. Minor interests are also being maintained in Stikine Copper Ltd. which continued a major exploration program on its large copper deposit in northern B.C., and in Baffinland Iron Mines Ltd. which carried out further exploration and feasibility studies to assess its extensive, high grade iron deposit on Baffin Island.

Personnel

The total roll of Cominco and all its subsidiaries stood at 10,131 at the year-end compared to 9,838 at the end of 1964. The increase was due principally to the high level of production and the increased requirements of new and expanded operations. The labour supply in most categories of employment was scarcer than in recent years, particularly skilled tradesmen, miners and design engineers. Labour turnover was higher, especially at the more remote mines.

Collective wage agreements for all British Columbia operations were negotiated in 1964 and were effective throughout 1965, but will come up for renewal in 1966. New agreements were negotiated during 1965 for the operations at Calgary and Pine Point and for the Wedge mine.

At December 31st the Pension Fund, which provides pensions for retired employees, amounted to \$50,105,000. During the past year 156 pensions were granted and at the end of the year 1,245 pensioners

and widows of former employees were receiving pensions compared with 1,158 at the end of 1964. With the inauguration of the Canada Pension Plan on January 1, 1966, the Pension Fund Society ceased to credit service for employees after December 31, 1965, though all credits for service up to that date are fully preserved. Effective January 1, 1966, new Retirement Income Plans were introduced for general roll and for salaried employees.

Despite increased emphasis on accident prevention the number of disabling accidents suffered by Cominco employees increased slightly, reflecting the heavy construction program and the higher labour turnover.

In May, Mr. D. D. Morris, formerly Vice-President and General Manager, was appointed Vice-President, Operations and transferred to Montreal. At the same time, Mr. J. H. Salter, formerly Assistant General Manager, was appointed Vice-President, Western Region, and Mr. S. M. Rothman, formerly Manager, Kimberley Operations, was appointed Manager, Western Operations.

The Directors wish to record their appreciation of the co-operation and faithful service of the employees who have contributed much to the progress of the Company.

On behalf of the Board,



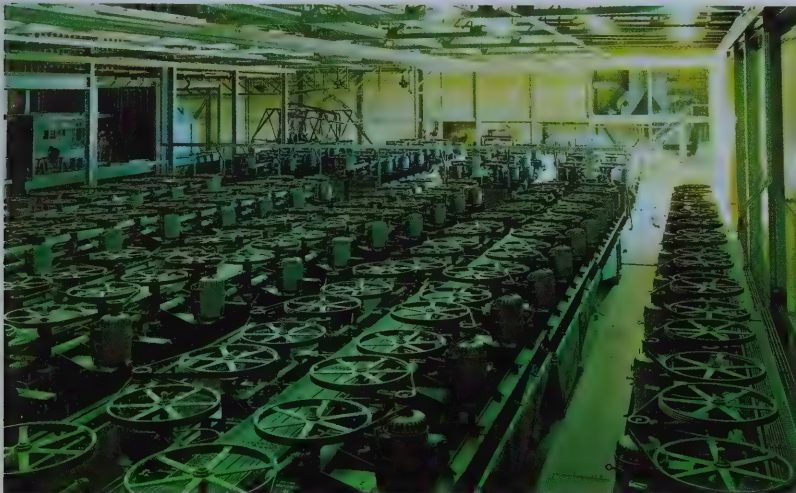
Chairman and President.

It is with profound sorrow that we record the untimely and sudden death on the 13th March, 1966 of Mr. R. A. Emerson. Mr. Emerson became a Director of the Company and a member of the Executive Committee of the Board on the 6th March, 1961 and served in that capacity until his death. Mr. Emerson maintained a deep and active interest in the growth and progress of the Company which, coupled with his friendly personality, earned for him the respect and esteem of his fellow Directors. His counsel and sound advice will be sorely missed.



Top:
The new sulphuric acid plant at Trail shown near completion.

Centre:
Flotation cells at the Pine Point concentrator separate lead-zinc ore into high grade concentrates of each metal.



Bottom:
A rotary kiln installed at the new Regina plant to dry ammonium phosphate fertilizer.



Consolidated Balance Sheet at December 31, 1965

(with comparative figures for 1964)

Assets

Current Assets:

	1965		1964	
Cash	\$ 5,307,000		\$ 5,403,000	
Notes, loans and other short-term investment contracts, at cost	20,614,000		36,415,000	
Government and municipal bonds, at cost (market value \$8,895,000)	9,144,000		22,982,000	
Accounts receivable:				
Trade	32,288,000		25,029,000	
Unconsolidated subsidiary companies	1,354,000		753,000	
Prepaid charges	4,143,000		3,932,000	
Inventory of raw materials and products, at lower of cost and realizable value	40,073,000		32,484,000	
Stores and materials, at cost less depreciation	10,732,000	\$123,655,000	9,595,000	\$136,593,000

Investments and Sundry Assets:

Investments (Note 2)	26,631,000		10,883,000	
Deferred charges	2,149,000		1,172,000	
Sundry loans and accounts receivable	1,025,000	29,805,000	925,000	12,980,000

Fixed Assets:

Land, buildings and equipment, at cost less fully depreciated items written off and sales at realized prices	193,403,000		179,320,000	
Less accumulated depreciation (Note 3)	64,799,000		83,002,000	
	128,604,000		96,318,000	
Mining properties and development, at cost less amounts written off	24,325,000		21,739,000	
Less accumulated depletion	6,865,000		5,957,000	
	17,460,000	146,064,000	15,782,000	112,100,000
		\$299,524,000		\$261,673,000

The Consolidated Mining and Smelting Company of Canada Limited

Liabilities and Shareholders' Equity

Current Liabilities:

	1965	1964
Bank loans	\$ 2,957,000	\$ —
Accounts payable	20,170,000	15,015,000
Estimated income taxes payable	6,062,000	10,891,000
Dividends payable	15,034,000	13,363,000
	<u>\$ 44,223,000</u>	<u>\$ 39,269,000</u>

Long-Term Debt (Note 4)	11,737,000	6,455,000
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Minority Interest in Pine Point Mines Limited	4,597,000	552,000
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Accumulated Tax Reductions Applicable to Future Years	6,051,000	5,482,000
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Shareholders' Equity:

Capital:

Authorized — 20,000,000 shares of no par value; issued and fully paid — 16,688,155 shares	24,651,000	24,651,000
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Insurance reserve	—	3,951,000
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Retained earnings	208,265,000	232,916,000
	<u>208,265,000</u>	<u>232,916,000</u>

Commitments and Contingent Liabilities: (Note 5)

\$299,524,000

\$261,673,000

On behalf of the Board:

W. S. Kirkpatrick }
R. Hendricks } Directors

The Consolidated Mining and Smelting Company
of Canada Limited

Consolidated Statement of Earnings

for the year ended December 31, 1965
(with comparative figures for 1964)

	1965	1964
Sales of products	\$211,173,000	\$170,029,000
Other revenue	4,495,000	4,279,000
	<u>215,668,000</u>	<u>174,308,000</u>
<i>Cost of sales:</i>		
Inventory of raw materials and products at beginning of year	32,484,000	26,665,000
Production, selling and general expenses	110,121,000	85,947,000
Custom ore and other materials purchased	24,682,000	23,440,000
Interest on long-term debt of subsidiary companies	353,000	225,000
Directors' remuneration	334,000	337,000
	<u>167,974,000</u>	<u>136,614,000</u>
<i>Deduct</i> inventory of raw materials and products at end of year	40,073,000	32,484,000
	<u>127,901,000</u>	<u>104,130,000</u>
	87,767,000	70,178,000
<i>Add:</i>		
Income from investments in unconsolidated subsidiary companies (1965 — including non-recurring dividend of \$2,500,000)	4,499,000	1,154,000
Income from other investments	2,087,000	3,186,000
Net gain from sale of investments	275,000	812,000
	<u>6,861,000</u>	<u>5,152,000</u>
<i>Deduct:</i>		
Provision for depreciation (Note 3)	13,586,000	11,585,000
Provision for depletion	1,112,000	156,000
Provision for income taxes	22,848,000	24,100,000
Minority interest in net earnings of Pine Point Mines Limited (after deducting \$3,542,000; 1964 \$782,000 unrealized by parent company)	4,045,000	(67,000)
	<u>41,591,000</u>	<u>35,774,000</u>
Net earnings, to statement of retained earnings	\$ 53,037,000	\$ 39,556,000
Net earnings per share	<u>\$3.18</u>	<u>\$2.37</u>

Consolidated Statement of Retained Earnings

for the year ended December 31, 1965
(with comparative figures for 1964)

Amount at beginning of year (1964 — after deducting \$237,000 excess of cost over book value of shares of Pine Point Mines Limited at January 1, 1964)

Add:

Net earnings per statement of earnings

Insurance reserve transferred

Adjustment on pooling of interests with Western Canada Steel Limited

Deduct:

Appropriation for dividends, \$1.80 in 1965 (1964 — \$1.60)

Amount at end of year, to balance sheet

1965	1964
\$181,313,000	\$164,364,000
53,037,000	39,556,000
3,951,000	—
—	3,847,000
238,301,000	207,767,000
30,036,000	26,454,000
\$208,265,000	\$181,313,000

Notes to Financial Statements

1. Basis of Consolidation:

The financial statements of the holding company ("Cominco") are presented in consolidation with those of all subsidiaries in which it holds all the shares and of Pine Point Mines Limited, a 78.2% owned subsidiary which commenced operations in late 1964. The figures of Pine Point Mines Limited, whose activities are closely integrated with Cominco's, were not included in the consolidation for 1964 and accord-

ingly the 1964 comparative figures have been revised to include them. Other subsidiaries have not been included in the consolidation because they have different businesses from those of Cominco, or they have relatively limited economic life, or they are not significant.

Current assets and liabilities in foreign currencies are converted at exchange rates applying at balance sheet dates; non-current assets and liabilities in foreign currencies are converted on various appropriate bases.

2. Investments:

Particulars of investments are as follows:

	1965	1964
Unconsolidated subsidiary companies:		
Shares, at cost	\$17,472,000	\$11,220,000
Advances	1,930,000	1,596,000
Other companies:		
Shares, at cost less amounts written off and sales at realized values:		
Having a quoted market value (market value \$4,658,000)	1,560,000	1,418,000
Having no quoted market value	9,677,000	2,149,000
Income debentures, at cost (market value \$945,000)	1,000,000	—
Advances	749,000	77,000
	<u>32,388,000</u>	<u>16,460,000</u>
Less accumulated provisions for depletion of investments in mining companies	5,757,000	5,577,000
	<u>\$26,631,000</u>	<u>\$10,883,000</u>

Cominco's equity in the aggregate net earnings of unconsolidated subsidiary companies amounted to \$1,917,000 for 1965. Cominco has not taken into the accounts its equity of \$3,164,000 in undistributed earnings (net of losses) of unconsolidated subsidiaries.

3. Depreciation:

In the main, depreciation for the group of companies is computed on each year's net plant expenditures (including land) evenly over a period of years until those expenditures have been fully depreciated. When that occurs the practice is to write off the recorded cost against the depreciation accumulation, so that only costs not yet fully depreciated are carried forward. Expenditures by Cominco are depreciated over thirteen years; expenditures by Pine Point Mines Limited over ten years.

4. Long-term Debt of Subsidiary Companies:

	1965	1964
Cominco Products, Inc.:		
5½% Mortgage Notes, due January 1, 1980 (\$8,000,000 U.S.)	\$ 8,595,000	\$ —
Pine Point Mines Limited (minority interest):		
6% redeemable income debentures, due April 30, 1979	1,552,000	4,775,000
Western Canada Steel Limited:		
First mortgage sinking fund bonds:		
Series "A", 5% Maturing January 2, 1972	300,000	350,000
Series "B", 6% Maturing January 2, 1972	290,000	330,000
Series "C", 6½% Maturing July 2, 1977	1,000,000	1,000,000
	<u>\$11,737,000</u>	<u>\$ 6,455,000</u>

5. Commitments and Contingent Liabilities:

	1965	1964
Commitments under construction in progress, estimated not to exceed	\$26,700,000	\$10,000,000
Sundry guarantees, commitments and claims, estimated	3,600,000	4,600,000

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of The Consolidated Mining and Smelting Company of Canada Limited as at December 31, 1965 and the consolidated statements of earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the balance sheet and the statements of earnings and retained earnings present fairly the financial position of the company and its consolidated subsidiaries as at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HELLIWELL, MACLACHLAN & CO.,
Chartered Accountants.

VANCOUVER, B.C., February 18, 1966

Principal Active Subsidiary and Affiliated Companies

Included in Consolidation

Cominco American Incorporated – 100% owned
President – F. E. Burnet
Head Office: Spokane, Washington, U.S.A.

Formerly Montana Phosphate Products Company, the new name was adopted in August and Articles of Incorporation and By-laws amended in line with the pending merger with Cominco Products, Inc. and the expanded activities. Cominco American Incorporated holds extensive phosphate reserves in Montana and in 1965 produced and sold to Cominco for the Trail and Kimberley operations 407,700 tons of phosphate rock from Garrison and 184,900 tons of concentrates from the Douglas Creek mine and mill near Maxville. Cominco American is also bringing into production a lead mine near Salem, Missouri in conjunction with Magnet Cove Barium Corporation of Houston, Texas. The company also has an active mineral exploration program in several areas of the United States.

Cominco Products, Inc. – 100% owned
President – F. E. Burnet
Head Office: Spokane, Washington, U.S.A.

Major activity of this company has been to warehouse, mix and market Cominco fertilizers in the United States in connection with which the company has an interest in several subsidiary companies engaged chiefly in the distribution of fertilizers. At the year-end the company had practically completed construction of a plant at Beatrice, Nebraska for the manufacture of 200,000 tons per year of nitrogeous fertilizers. The company also markets certain Cominco metal products in the United States and at a plant in Spokane manufactures and markets preforms for the electronics industry. Sales taken into revenue by this company in 1965 totalled \$32,608,000 (U.S.). At the year-end, Cominco Products, Inc. ceased independent existence, its merger with Cominco American Incorporated being effective January 1, 1966.

Pine Point Mines Limited – 78% owned
President – W. G. Jewitt
Head Office: Trail, B.C.

Cominco acts as manager and agent for this company which owns a large zinc/lead property near Pine Point, N.W.T. Regular shipments of high grade ore were made from this

property throughout 1965 and full-scale production of lead and zinc concentrates commenced late in the year. Net earnings in 1965 were \$22,132,000. Ore reserves at September 30, 1965 were 21,500,000 tons containing 7.2% zinc and 4.0% lead.

National Hardware Specialties Limited –
100% owned
President – D. G. McGorman
Head Office: Dresden, Ontario

This company owns and operates a zinc die-casting plant at Dresden and through its subsidiary, Luster Corporation of Canada Limited, operates a plating plant at Wallaceburg, Ontario. It also has a majority interest in Schultz Die Casting Company of Canada, Limited, with operations at Lindsay, Ontario. Sales from the three operations totalled \$5,577,000 in 1965.

Western Canada Steel Limited – 100% owned
President – G. H. D. Hobbs
Head Office: Vancouver, B.C.

This company owns and operates a steel plant in Vancouver and on adjoining Twigg Island. Its annual capacity is 100,000 tons steel ingots from which rolled steel products and industrial fasteners are manufactured. Sales taken into revenue in 1965 totalled \$11,742,000. The company has 50% interest in Hawaiian Western Steel Limited of Honolulu.

Other Subsidiary Companies

West Kootenay Power and Light Company, Limited
President – W. K. Gwyer
Head Office: Trail, B.C.

Cominco holds all the common shares and 24% of the preferred shares of this company which owns and operates a hydro-electric power plant on the Kootenay River and a distribution system providing public utility service in southern British Columbia. In 1965 total sales of firm energy were 503,007,000 kwh compared with 466,907,000 kwh in 1964. The company also operates Cominco's hydro-electric plants under management contract.



Pacific Coast Terminals Co. Ltd. – 74% owned
 President – W. S. Brown
 Head Office: New Westminster, B.C.

This company owns and operates storage warehouse and dock facilities at New Westminster, B.C., and operates bulk-loading facilities at Port Moody, B.C., owned by its 71% subsidiary Pacific Coast Bulk Terminals Limited. Dock and bulk-loading facilities are being expanded. In 1965 materials handled through both facilities totalled 2,210,000 tons.

Rycon Mines Limited – 60% owned
 President – B. E. Hurdle
 Head Office: Yellowknife, N.W.T.

Cominco mines and treats the gold ore of this company in conjunction with the adjoining Con operations in the Northwest Territories. In 1965, 60,700 tons of ore were mined containing 1.0 oz. gold per ton.

Coast Copper Company Limited – 83% owned
 President – B. E. Hurdle
 Head Office: Trail, B.C.

This company owns a copper mine in northern Vancouver Island which Cominco operates under management contract. In 1965, 292,000 tons of ore containing 1.7% copper were mined and treated in Cominco's adjoining mill at Benson Lake.

Sunro Mines Limited – 77% owned
 President – B. E. Hurdle
 Head Office: Trail, B.C.

This company has a copper property on Vancouver Island presently under lease to Cowichan Copper Company which resumed operation in December after a two-year shutdown because of flooding.

Top:

Mining an open pit at Pine Point, N.W.T. In the area presently being mined the ore occurs under about 35 feet of overburden.

Bottom:

The new community of Pine Point, N.W.T. with open pits and concentrator visible in the distance.



Affiliated Companies

Cominco Binani Zinc Limited

Chairman – G. Binani

Head Office: Calcutta, India

This company, in which Cominco has a 40% interest, was incorporated in 1962 by Cominco and Metal Distributors Limited of Calcutta. Under contract Cominco is supervising construction of a 22,000 ton zinc smelter and sulphuric acid plant near Cochin in southwest India for Cominco Binani Zinc Limited. At the year-end plant construction had made satisfactory progress with the expectation that operations will commence in 1966.



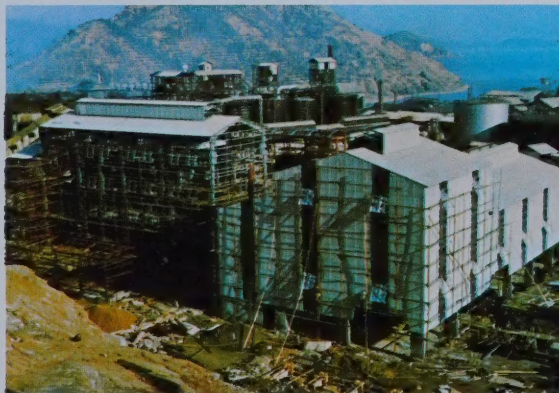
The electrolytic zinc refinery and sulphuric acid plant being constructed by Cominco Binani Zinc Limited at Alwaye, near Cochin in southwestern India.

Mitsubishi Cominco Smelting Company Limited

President – Takuhei Oishi

Head Office: Tokyo, Japan

Cominco has 45% interest in this company which was incorporated in 1965 jointly with Mitsubishi Metal Mining Company Limited of Japan. The company is now constructing a lead smelter at Naoshima, Japan which will treat lead concentrates to be purchased from Pine Point Mines Limited.



A view of part of the lead smelter being constructed by Mitsubishi Cominco on the Island of Naoshima, Japan.

Cominco-Gardner, G.m.b.H.

Chairman – J. A. MacKinnon

Head Office: Dusseldorf, West Germany

This company was established in 1963 by Cominco and Henry Gardner & Co. Limited of London who each hold a 50% interest. Its purpose is to promote sales of Cominco metals in Europe and otherwise engage in marketing activities. Sales in 1965 totalled \$18,400,000.

The Canada Metal Company Limited

President – Carleton Smith

Head Office: Toronto, Ontario

Late in 1965 Cominco acquired 50% ownership of this company from National Lead Company in the United States. The Canada Metal Company has plants in Toronto, Scarborough, Montreal, Winnipeg, Calgary and Vancouver for processing non-ferrous metals and alloys, producing lead oxides and refining secondary metals.

Products

Metals

Lead, Zinc, Silver, Bismuth, Cadmium, Indium, Gold, Antimonial Lead, Zinc Dust, Pig Iron, Copper and Tin Concentrates

Fabricated Metal Products

Zinc Extrusions, Zinc Die Castings, Cadmium and Zinc Plating Anodes, Zinc Anodes for Cathodic Protection, Steel Fasteners, Light and Medium Structural Steel Products

Electronic Materials*

High Purity Metals (99.999% and 99.9999% Pure)

Aluminum, Antimony, Arsenic, Bismuth, Cadmium, Gold, Indium, Lead, Silver, Tin, Tellurium, Thallium, Zinc

Preforms also available

Compound Semiconductors

Indium Antimonide, Indium Arsenide

Thermo-Electric Materials

Bismuth Telluride

*Available in fabrications to customers' specification.

Chemical Fertilizers

Ammonium Sulphate, Ammonium Nitrate, Urea, Anhydrous and Aqua Ammonia, Nitrogen Solutions, Ammonium Phosphates, Ammonium Nitrate-Phosphates, Complete Fertilizers, Ammonium Phosphate Solutions, Phosphoric Acid, Nitrogen-Sulphur Solutions, Zinc Fertilizer Compound

Chemicals

Ammonia, Urea, Chlorine, Caustic Soda, Sulphuric Acid, Sulphur Dioxide, Urea Feed Compound

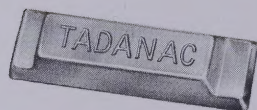
Rolling steel at the Vancouver plant of Western Canada Steel Limited, a wholly-owned subsidiary.



Vibrating screens to produce uniform granules of ammonium phosphate fertilizer at the Company's new Regina plant.



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COMINCO

